1916

A State System of Retirement Funds for Teachers

From the Viewpoint of a Business Man and a School Director

ADDRESS

DELIVERED BY

MARCUS AARON
MEMBER BOARD OF PUBLIC EDUCATION, PITTSBURGH
AND PENNA. STATE BOARD OF EDUCATION

BEFORE THE

STATE EDUCATIONAL ASSOCIATION
HARRISBURG

December 29, 1916

A State System of Retirement Funds for Teachers

From the Viewpoint of a Business Man and a School Director

Address delivered by Marcus Aaron before the State Educational Association, Harrisburg, December 29, 1916

The past history of teachers' pensions in this country has been anything but satisfactory or complimentary to the business sense of those who founded the various systems. They have been a perpetual record of illusions, a continuous series of bankruptcies. Looking backward there would seem to be no possible excuse for teachers and business men continually fooling themselves unless it be that practically everyone has done the same thing in some form of insurance rainbow chase.

The concrete results of these bankruptcies, when the inevitable end came, have been pathetic in the extreme. In instance after instance those who paid for years have awakened too late to the discovery that, when their own need came, "The cupboard was bare."

The only hopeful sign has been a general recognition of the gravity of the situation, together with several attempts to make a scientific study of the problem and find a remedy.

Perhaps the foremost of these, and the one which is entitled to receive the most serious consideration is that made by the Carnegie Foundation.

In his Tenth Annual Report, the president, Dr. Henry B. Pritchett, says:

"The function of a pension system is to secure to the individual who participates in it, protection against the risk of dependence due to old age or to disability."

"Society rightly assumes that so long as the bodily and mental powers of the individual are not impaired he shall be a self-sustaining economic unit in the body politic."

"Too much is at stake to indulge in experiments."

"Seldom is there any evidence of expert assistance."

"Too many of the plans adopted appear to be inspired by a desire to launch a system somehow, relying on a secret and indefinable hope that Providence or the public treasury or the wealthy philanthropist will not permit the poor pensioner to suffer."

"This feeling is well expressed by the retired teachers of New York City, in a recent meeting to protest against the proposed reduction in their allowance in the sentence—'I don't believe we will have any difficulty in getting our money, for the City of New York is too great to allow its retired teachers to suffer.' "

"Many of the recent schemes approximate too nearly to a kind of reversed tontine policy—those who come in early get what there is: the ultimate survivors stand to lose everything, the pension and their own contributions."

"It has been impossible to discover in any of the campaign literature on behalf of pension legislation any estimate of the probable cost of a pension system."

"Educational leaders are still content to make what may at least be characterized as unfounded and conjectural assertions."

This entire report is worthy of the most careful study of all those who desire an authoritative summary of the teachers' pension situation at present.

Those whose pension systems are either on the verge of bankruptcy or are destined to insolvency, and particularly those who are giving careful study to the subject, recognize that the following are the fundamental requirements of a good pension system:

1. It shall, above all, be financially sound.

2. It shall be as generous as possible to the teacher.

3. It shall be fair alike to the two parties at interest, who are usually contributors,—the taxpayer on the one hand and the teacher on the other.

Several questions present themselves. What do we want to do? What can we do? What is the right thing to do? How shall we do it?

One of the first things that has to be determined is the standing of the teacher as a public servant. Has the teacher, because of the peculiar nature or quality of her service, an exclusive right to a pension?

However exalted an opinion teachers as a class may have of their contribution to the public weal, they will scarcely insist that they have an exclusive right to a pension at public expense.

If teachers do not have an exclusive right to a pension, what is their relative standing among other public servants?

Are all public servants entitled to pension? Are other members of the democracy, not public servants, entitled to pensions at the expense of the public?

Even if a teacher may believe that she has an exclusive right to a pension, or a right to a preferred claim among other public servants, it is not probable that the remainder of the public will be readily persuaded to admit the claim and to provide the funds.

On the other hand, there is a growing feeling that there is an obligation upon society as a whole to safeguard the individual from preventable distress, coming from any direction. It will probably be recognized in the near future that it is not only just but economical to provide in some way old age pensions for those who are in financial distress and without relatives or others upon whom they may fairly depend for support.

It will, however, doubtless be some time in the future before there is adequate public provision for such cases. And in the

meantime, we are confronted by the condition of the teacher and not by an abstract theory.

The world is in the midst of a change from an individualistic to a co-operative theory of life. One of the most difficult problems, and one which any pension system most vitally affects is the problem of securing the benefits of co-operation and at the same time safeguarding individual integrity. Everyone who has given any study to the practical operation has been grieved at the evidences that any form of pension tends to undermine that sterling self-reliance which has always been one of the most highly esteemed of the virtues.

What is the relation between the public and the teacher? How much absolute truth is there in the idea that a teacher has a just claim for special consideration at the hands of the public?

It will perhaps not be denied that the teacher who has served faithfully many years is one of the most valuable, if not indeed the most valuable of public servants; that she is in many instances the best beloved servant; that the public generally stands ready and willing to properly recognize, appreciate and reward past service; that for selfish reasons, if for no other, the public is willing to take such steps as may be necessary to secure for itself a continuance of such service for the future; that at least in this department of the relation between employer and employee the question of the human relation is vital; that it will be worth a serious effort to attempt to secure happy and contented service, if such a thing is humanly possible; that since the teacher deals with our children and our children's children, it would be well worth while to concern ourselves deeply with her work and her happiness in it.

Teachers may be roughly grouped into two classes: (1) those who are teaching temporarily, before entering a home of their own or another career, (2) those who devote themselves to the profession as a life work.

It would be perfectly easy to say that the first group could make no serious claim to a pension and that only the second group need be considered. The difficulty is that but few teachers deliberately set out to join the second class, and that the transition from the first group to the second is gradual, and often involuntary.

The teacher who really belongs in the second group, however, is usually the salt of the earth. She has deep in her heart that essence of the spirit of good women everywhere—the spirit of self-sacrifice. She is earning daily the title, "Other Mother," for she is, almost universally, giving not only her earnings, but the essence of her life, not in response to mere instinct for her own children but an altruistic effort for the highest good of the children of others. A great teacher always bequeaths to those chosen children of the mind and soul, dearer often because there are no real children of the body, something of the quality of an Alma Mater—a real bountiful Mother.

The pathos of the situation, however, consists in this, that when the tragic years have come and her youth is gone, there are no children of her very own, to cherish and sustain her. Her parents have long since died, her brothers and sisters have scattered or have obligations of their own. She stands facing the future with no home, little or no money, and little or no chance of living even for a few restful years, her own life, though it be but a life as simple—and as lonely—as that of a cloistered nun.

It is because every community recognizes the pathos and the tragedy of this situation, that there exists a common feeling and determination everywhere that no teacher who has served faithfully for many years shall be permitted to come to financial grief or end her days as an object of charity.

On the other hand we should not forget that there are two obligations resting upon all members of society whether teachers or not: (a) the obligation to keep well and in condition to do one's work; (b) the obligation to save something for a rainy day.

Since a teacher cannot as in industrial and municipal activities be transferred in later years to less difficult duties, the only solution at once practical and humane is to admit the claim to some special pension consideration.

And precisely because of this general feeling, and in anticipation of a more general provision for such cases there have been established, from time to time, such funds as the Elkin Fund of Philadelphia and the Frick and Carnegie Funds.

An effort is now being made to standardize this movement and to make it universally applicable. It is recognized that no young teacher could be expected to enter the profession if the road led only to the poorhouse.

There are three great motives to which an employer may appeal: (1) Wages, or financial reward. (2) Appreciation. (3) A missionary spirit, or a high sense of right. The financial appeal is the most general. It is exemplified by the practice of the up-to-date industrial organization. But it is extremely improbable whether the financial rewards of teaching will ever be sufficient to attract men and women from other callings. Nor is there much probability that there will soon or ever be developed a keen enough appreciation on the part of the public to make teaching attractive. We must place our main dependence upon the missionary spirit and upon the sense of right.

There are men and women everywhere who would gladly dedicate their lives to the cause of childhood if they might be assured of but one thing,—that they will not be obliged to end their days as an object of charity. One of the most deeply pathetic things in this world is a teacher and a gentlewoman, forced to spend her last years in want.

What inducement will we offer this public servant in advance as a return for a life work? What is the minimum obligation resting upon society in this instance?

The great unsolved problem in a democracy is how to enlist for the service of the whole people the best brains and ability within that people. The public school is, as a whole, the most successful of the institutions of a democracy. It is pre-eminently the institution to which is entrusted the very life of the democracy. There is no panacea in the phrase, "The majority shall rule." There is absolutely no guarantee that the majority will be or remain fit to rule. The panacea consists, if there be one, in making and keeping the majority FIT to rule. And it is this training for fitness to rule which is the peculiar province of school and teacher.

In view of all of these considerations it may be agreed that after a stated number of years of service, a teacher has a right to receive enough each year to enable her to live simply for the remainder of her life. What the period of service should be, and what the amount of the annual pension should be have not yet been determined.

This much, however, is certain—that it is worse than useless for teacher, school board or public to cherish the delusion that funds can be paid without being provided; that twice two will make seven for a teacher in a pension fund any quicker than it will elsewhere. All must face the facts that the mortality tables will prevail here as elsewhere; that, in order to grant an annuity of $500 per annum to a teacher aged 65, there must be on hand approximately $5,000 at that time, procured from some source, either the teacher, the public or elsewhere; that this amount would be entirely inadequate to provide the same annuity at age of 60; that the details of any plan are questions for the most careful study by actuaries of wide experience; that a surplus is easier to handle than a deficit; that a pension plan must be sound before it is sympathetic; that a proper plan once found for a city may be extended to a state and to the nation.

The Pittsburgh Board of Public Education after an exhaustive study, made under the direction of Mr. S. H. Wolfe and a group of experts, have now under consideration a pension plan the cost of which has been determined and the solvency of which is unquestioned.

The plan assumes that there is a responsibility upon everyone to save something from his or her salary; that in the case of a teacher the public may be fairly expected to supplement these savings; that those drawing larger salaries should effect larger savings, and that there is no obligation therefore to provide for any one group of teachers larger pensions than for another group, or a sum larger than will guarantee the necessities of a simple life.

The plan embodies the following features:

A—Contributions By Teachers.

1. That all contributions made by the teacher shall in every event be returned to her or her designated beneficiaries with interest compounded at 4%. The teacher has therefore a guar-

anteed savings account in addition to provisions for a pension. This provision was made in justice to the teacher who withdrew for any reason before becoming an annuitant or before receiving back her payments as an annuitant. In effect, therefore, no teacher contributes to any other teacher's pension. She contributes toward her own pension and that only if she becomes an annuitant.

2. That contributions are to remain uniform, viz: a teacher aged 30 will continue to pay the rate for that age as long as she contributes. Rates vary from $16.50, at age twenty, to $52 per year, at age forty, and all succeeding years. The nearest comparable service available commercially would cost a teacher aged twenty $40 per year, a teacher aged forty $152 per year, and a teacher aged fifty $337 per year.

3. That all teachers shall participate.

B—Contributions By Board.

1. That the Board shall contribute, dollar for dollar, with the teacher.

2. That in addition to the above the Board shall pay the excess rate for teachers now in service over the age of forty.

3. That the Board shall pay the cost of administration.

4. Contributions made to the retirement fund by the Board shall remain in the fund to be used solely for the benefit of the teacher.

C—Benefits.

1. That earnings at the rate of 4% have been assumed and standard tables of mortality used in the calculation.

2. That a pension of $500 be paid annually during the life of each teacher retiring at the age of 65, or of $300 to each teacher retiring at age 60.

3. Disability pension varying as to age and service have been provided.

There has been considerable feeling on the part of the teacher that the maximum allowance for retirement should be effective at not over age 60. While such a change might be desirable from the standpoint of school administration, it is financially impossible for the school district and the teacher without substantial contribution to the fund by the State.

The scale of benefits in comparison with other retirement fund plans may seem low, but it must be remembered that many of the more "generous" plans, while apparently on a sound basis, are actually insolvent when their accrued liabilities are properly computed. A better scale of benefits, of course, could readily be devised, but this would require higher contributions on the part of either the teacher, the school district, or the State. Those who want more must face the question, who is to pay the bill?

However desirable a State retirement fund for teachers and however anxious many of us may be for early action, the Legislature should hesitate before enacting into law any pension legislation that has not been carefully studied, both as to its effect and its cost, immediate and ultimate, by those competent to understand the many intricacies involved, even though the bill proposed has the endorsement of every teacher in the State. There is another party in interest. Though the teacher is willing to trust the generosity of the next generation, if the plan survive so long, we are criminally negligent, if, in spite of warnings that signal unmistakable disaster, we do not take every precaution to build safely and well. The teacher is blind if she does not see that her interests suffer through unsound finance, and the people have a right to demand that however meritorious the project, no promise to pay shall be made in the name of the State or in that of the school district, the cost of which has not been counted, for which adequate provision has not been made.

The law in most States compels insurance companies to provide a reserve actuarily determined to protect promises to pay. There is no such provision safeguarding State, municipal or commercial pension funds, the proper reserve has not been provided and hence those funds not already acknowledged to be bankrupt are steadily and surely heading in that direction.

No pension fund is sound that does not set aside from year to year the reserve necessary with its accumulated interest to provide the pension, at the date agreed upon. Better no promise than a broken one and better no hope for an annuity than disappointment to an annuitant or a prospective annuitant resultant from mistaken finance. Once upon a time we did not know better. Today we are without excuse if we have not learned our lesson. The State that neglects the proper supervision of its life insurance companies is inviting sure scandal and disaster. Scarcely less important, if the pension idea is to develop, is the necessity for careful actuarial calculation and for careful governmental supervision of plan investment.